INTERNAL CONTROL MANUAL

I. INTRODUCTION

Metropolitan Steel Corporation Limited (the Company) has the responsibility to its shareholders to be good stewards of public monies and property. In our efforts to serve the public as board members or employees, the Company has established this Internal Control Manual using the guidelines of State Bank of Pakistan and directives issued by the Institute of Chartered Accountants of Pakistan.

II. OBJECTIVES

The internal control system consists of three objectives and five main components.

1. Reporting – reliability;
2. Operations – effective and efficient;
3. Compliance - compliant with applicable laws and regulations.

III. COMPONENTS

Five (5) main components of internal controls that are required to be addressed are:

1. Control Environment

The environment in which internal control operates has an impact on the effectiveness of the control procedures. In fact it is institution's control environment which embodies the principles of strong internal control. Besides giving structure to the internal control system, it provides discipline and protocol.

The success of control environment is judged according to; the integrity, ethics, and competence of personnel; the organizational structure of the institution; oversight by the board of directors and senior management; management's philosophy and operating style; attention and direction provided by the board of directors and its committees, especially the audit and risk management committees; personnel policies and practices and; external influences affecting operations and practices.

- Board of directors reviews policies and procedures periodically and ensures their compliance
- Board of directors determines whether there is an audit and control system in place to periodically test and monitor compliance with internal control policies/procedures and to report to the board instances of noncompliance;
- Board of directors ensure independence of internal and external auditors such that internal audit directly reports to the audit committee of the board which is responsible to the board and that external auditor interacts with the said committee and presents management letter to the board directly;
- Board ensures that appropriate remedial action has been taken when instance of non-compliance are reported and that system has been improved to avoid recurring errors/mistakes;

- Management information systems provides adequate information to the board and that the board can have access to the Company's records, if need arises;
- Board and management ensure communication of conduct or ethics policies and compliance thereof down the line within the organization;

2. Risk Assessment

From an internal control perspective, risk assessment involves; identification and evaluation of factors, both internal and external, that could adversely affect performance, information and compliance objectives.

An effective risk assessment system allows the board and the management to plan for and respond to existing and emerging risks in the Company's activities. For that matter, such a system needs to demonstrate following:

- Board and management involve audit personnel or other internal control experts in the risk assessment and risk evaluation process. Those experts should be competent, knowledgeable, and provided with adequate resources;
- As the risks mutate with time and with changing circumstances, the board and the management, with due involvement of audit personnel, should appropriately evaluate the risks and consider control issues related to existing products and those relevant to new products and activities;
- Risk coverage in the form of insurance (that is risk transfer) or provisioning (contingency fund) in relation to the bank's risk profile is adequate.

3. Control Activities

These include the following:

1. Separation of Duties: Duties should be divided so that no one person has complete control over a key function or activity.
2. Authorization and Approval: All transactions should be authorized before recording and execution.
3. Custodial and Security Arrangements: Responsibility for custody of assets needs to be separated from the related record keeping.
4. Review and Reconciliation: Records should be examined and reconciled to regularly determine that transactions are properly processed, approved and booked.
5. Physical Controls: Equipment, inventories, cash and other assets should be secured physically, counted periodically and compared with amounts shown on control records
6. Training and Supervision: Qualified, well-trained and supervised employees always help ensure that control processes function properly.
7. Documentation: Documented policies and procedures promote employee understanding of duties and help ensure continuity during employee absences or turnover. Therefore, policies and procedures (in the form of operations manuals and desk instructions) should exist.
8. Communication of importance of Internal Controls: Setting standards of professional integrity and work ethics and ensuring that all levels of personnel in their organization know the importance of internal controls and understand their role in the internal controls process and be fully engaged in the process.
   Cost/Benefit: It is for the Company to assess the costs associated with control processes commensurate with the expected benefits.

4. Information and Communication

Management has the responsibility to adequately communicate information to both internal and external parties. It is important that employees know the objectives, policies and procedures management has established and what the expectations are for internal controls. External stakeholders may also seek information regarding objectives and reliable financial information.

5. Monitoring

The internal control system changes as technology, staff, objectives and policies change. Management is charged with continually monitoring the internal control system to determine if it is operating as designed and to ensure the policies are being followed.